

**City of Long Beach, California**

**COMPREHENSIVE  
ANNUAL  
FINANCIAL  
REPORT**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002**

**Prepared by the Department of Financial Management  
Robert S. Torrez, CFO/Director**

City of Long Beach  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended September 30, 2002

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# CITY OF LONG BEACH

OFFICE OF THE CITY MANAGER

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GERALD R. MILLER  
ACTING CITY MANAGER

February 19, 2003

Honorable Mayor and City Council  
City of Long Beach

In accordance with Section 302(e) of the City Charter, submitted herewith is the Comprehensive Annual Financial Report (CAFR) for the City of Long Beach for the fiscal year ended September 30, 2002. This report has been prepared by the Department of Financial Management in accordance with generally accepted accounting principles (GAAP) and was audited in accordance with generally accepted auditing standards and government auditing standards by a firm of licensed certified public accountants.

This report contains management's representations concerning the finances of the City of Long Beach, and management assumes full responsibility for the completeness and reliability of all of the information presented. To provide a reasonable basis for making these representations, management of the City of Long Beach has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Long Beach's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Long Beach's financial statements have been audited jointly by the City Auditor's Office and by KPMG LLP, an international public accounting firm fully licensed and qualified to perform audits of the State and local governments within the State of California. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Long Beach for the fiscal year ended September 30, 2002, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditors concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Long Beach's financial statements for the fiscal year ended September 30, 2002, are fairly presented in conformity with accounting principles generally accepted in the United States. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Long Beach is part of a broader, federally mandated "Single Audit" designed to meet the special needs of Federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the City's fair presentation of the financial

statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of Federal awards. The City's "Single Audit" reports are available by contacting the City's Department of Financial Management for the separately issued Single Audit Report.

The City prepared the CAFR using the new financial reporting requirements outlined in the Governmental Accounting Standards Board (GASB) Statement No. 34. This statement requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors in the financial section of the CAFR.

## **Profile of the Government**

The City of Long Beach, incorporated in 1897, is the fifth largest City in the State of California, located within Los Angeles County in Southern California. The City occupies a land area of approximately 50 square miles and services a population of approximately 473,000.

The City operates under a City Charter adopted in 1921 and last amended in 2002. The City Charter establishes the current Mayor-Council-City Manager form of government. The City is divided into nine councilmanic districts, with Council persons elected to represent their respective districts for up to two four-year terms. The citizens, as a whole, elect a Mayor to serve up to two four-year terms and recently; however, the current mayor was elected for a third four-year term as a write in candidate. The citizens, as a whole, also elect a City Auditor, City Prosecutor and City Attorney to serve four-year terms. The City Council appoints a City Manager who serves at the discretion of the Council. The City Council is responsible, among other things, for passing ordinances, adopting the budget and appointing committees. The City Council appoints the members of the following advisory commissions and boards:

- Harbor Commission
- Parks and Recreation Commission
- Citizen Police Complaint Commission
- Water Commission
- Planning Commission

The City Council also either serves as or appoints the voting majority of the governing board for the Parking Authority, the Southeast Resource Recovery Facility (SERRF) Joint Powers Authority, Housing Authority of the City of Long Beach, Long Beach Housing Development Company, Redevelopment Agency of the City of Long Beach, Long Beach Financing Authority, Long Beach Bond Financing Authority, Long Beach Transit and the Long Beach Capital Improvement Corporation.

The City Manager is responsible for directing and supervising the administration of all City Manager directed departments of the City, to see that laws, ordinances, orders, resolutions, contracts and franchises are enforced and executed, and for appointing all City

employees except for classified Civil Service employees, the City Clerk, Elected Officers, and their appointees.

The City of Long Beach provides a full range of municipal services, including police and fire, public health and environmental services, library, parks, recreation and related social services, engineering and public works, sanitation, general administration, planning and community development, public improvements, and gas, water, airport and towing services. The City operates and maintains a world-class international deep-water harbor, a nationally recognized convention center, several beaches and marinas. The City also administers oil extraction operations under a trust agreement with the State of California.

The annual budget serves as the foundation for the City's financial planning and control. The City Manager submits a proposed budget to the Mayor by August 1<sup>st</sup> and the Mayor presents it with recommendations to the City Council by August 15<sup>th</sup>. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget by September 30, the close of the City's fiscal year. The budget is prepared by fund and department. The City Council adopted the fiscal year 2002 budget prior to September 30, 2001 for all funds except for expendable trust funds. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various governmental funds. The City Council may amend the budget by motion during the fiscal year. The City Manager may transfer appropriations within the departments or within a given fund, without City Council approval, provided that the total appropriations at the fund level and at the department level do not change. Transfers of appropriation between funds or departments require City Council approval. Total expenditures of each fund may not legally exceed fund appropriations, and total expenditures for each department may not legally exceed departmental appropriations. Appropriations lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

### **Significant Events and Accomplishments**

In its second century, Long Beach views its historic past with pride and faces the challenges of the future with determination and optimism. Long Beach's approximately 473,000 citizens make it the fifth most populous city in California and the 34<sup>th</sup> largest city in the United States. Long Beach is steeped in a grand naval tradition, but also supported by "broad shoulder" industries like oil and aviation. Long Beach has positioned itself to become a leader in 21<sup>st</sup> century enterprises such as tourism, technology and services.

### **Meeting the Challenge**

As with governments at all levels, 2002 was a difficult year for Long Beach. With the economy uncertain, state and federal deficits growing, and a voter mandated reduction to a core revenue, Long Beach found itself with an increasingly unmanageable structural deficit. The recognition of the seriousness of this problem resulted in a complete review of City services and the resources that fund them.

Senior managers of City departments as well as a Mayor's Budget Advisory Committee have been reviewing the City budget, current operations, and sources of revenue. In addition, wide-ranging suggestions have been solicited for consideration from both employees and residents. This comprehensive budget evaluation process will be conducted

with the understanding that no service, department or function would be excluded from review.

Two distinct goals of the budget review process were to address the immediate budget gap facing the City in fiscal year 2004, and to create a comprehensive fiscal strategy with a three-year financial plan.

Immediate actions taken at the conclusion of fiscal year 2002 included a stringent spending curtailment and a hiring freeze. There will be an ongoing review of all purchases and hiring, as well as a thorough examination of City salaries, benefits and staffing levels.

### **Ongoing Economic Progress**

Despite the challenges presented by the budget deficit, Long Beach continues to make impressive gains in its economic infrastructure. Residential, retail and commercial developments are underway downtown and in other areas of the City.

Large numbers of upscale apartment and condominium units are nearing completion in the City's downtown and Bluff Park areas. Condominiums occupy what was the last vacant lot on Ocean Boulevard between downtown and Belmont Shore. As all of these units are occupied, their residents will provide a critical mass of consumerism for the retail sector in the downtown area of the City. In recognition of the growing residential presence in the downtown core, an Albertson's supermarket, Nordstrom Rack, Sav-On drugstore and Walmart have recently opened.

Upon completion in 2004, the Pike at Rainbow Harbor will complete the overall development of the Rainbow Harbor area, which already includes the Aquarium of the Pacific, Rainbow Harbor and the expanded Convention and Entertainment Center. This interconnected complex will be a retail, restaurant and entertainment magnet to both residents and visitors.

### **Tourism**

In addition to the imminent completion of the overall Pike at Rainbow Harbor development, the most significant addition to Long Beach's tourism infrastructure will be the completion of the Carnival Cruise Terminal adjacent to the Queen Mary. This new facility is expected to bring over 300,000 visitors annually to the City, many of them for the first time.

Other significant milestones in the tourism sector include:

- The 28<sup>th</sup> Toyota Grand Prix of Long Beach, in April 2002.
- The Aquarium of the Pacific's attendance increased by 8% over the previous calendar year. Plans for the Aquarium's first major expansion are under review.
- The Queen Mary celebrated its 35<sup>th</sup> anniversary in Long Beach in 2002.
- The City hosted 3,000 delegates from the League of California Cities Annual Conference in 2002. The conference will return to Long Beach in 2004.
- In June 2004, Long Beach will host a meeting of 1,000 convention meeting planners. This major trade show is significant in that it allows the City to showcase its attractions to an important audience of travel sales decision makers.

- Also in 2004, Long Beach will host the Janet Evans Swim Meet, the Men's and Women's Water Polo Finals and finally the U.S. Olympic Swim Trials. These aquatic events, which immediately precede the 2004 Olympics in Athens, are expected to draw over 100,000 guests to the City and will garner national media attention.

It should be noted that visitors to many upcoming events in Long Beach will arrive through one of the region's most convenient airport; Long Beach Airport is now one of the most popular in Southern California due to its designation as a hub for Jet Blue Airlines. In calendar year 2002, Long Beach Airport nearly served a record 1.5 million passengers and Jet Blue was one of only two major air carriers in the United States to report a profit in 2002.

### **Business Development**

The proposed mixed-use development of PacifiCenter by Boeing Realty on Lakewood Boulevard, and the Long Beach State University's Technology Park on the City's Westside will both augment the City's ability to attract businesses.

The Boeing manufacturing facility in Long Beach is the only location in California where commercial or military production aircraft are still being built. The Boeing 717, a 100-passenger short-range jetliner and the C-17 Globemaster III military transport are both manufactured at the site. The 100<sup>th</sup> production C-17 was delivered in 2002 and a follow-on contract was awarded for 60 additional planes. AirTrans Airlines received its 50<sup>th</sup> B-717 in 2002. Boeing continues to be one of the City's largest employers.

### **Trade**

In addition to the climatic and esthetic advantages of its seaside location, Long Beach is also home to one of the busiest ports in the world. The Port of Long Beach handled 4.7 million containers last year, an increase of more than 4% from the previous year. For the seventh consecutive year, the Port was named America's best seaport by *Cargo News Asia*, a trade publication.

Hanjin Shipping recently moved into its new container terminal and the 375-acre facility will become fully operational in 2003. Today's larger commercial vessels are too wide to traverse the Panama Canal, giving rise to Long Beach's harbor as an attractive port of entry to the American market.

### **Accomplishments**

In spite of the City's financial challenges, the City of Long Beach maintains a positive view of the future. Following is a summary of some significant achievements that continue to inspire us to face the coming years with confidence and optimism.

- The City's new 911 Emergency Communications and Operations Center will be open in 2003, bringing together the heart of Police and Fire emergency services in a state-of-the-art facility.
- More than one billion dollars is being invested in the downtown area with the construction of 3,000 new residential units, one million square feet of new retail, and new hotel rooms.



- Building permits have been issued in the past two years for over \$700 million in improvements or new construction of residential and commercial buildings throughout Long Beach.
- Although sales tax revenue declined from 2001, it has increased 75% since 1994, showing an overall positive trend spearheaded by several recently completed shopping centers.
- With a continuing increase in property values, property tax revenue has grown by approximately 13% since 2001. With the new developments underway, future property tax revenues should continue to increase.
- Over fifteen miles of major street work was completed in 2002, and an additional 20 miles projected for 2003. The sidewalk replacement program, which began in 1999, has continued to receive annual funding allotments of \$3 million.
- Grants of \$2,000 each were made available during the year to help 71 neighborhood businesses get started.
- The Long Beach Unified School District was awarded the 2002 Board Prize for Excellence in Urban Education as one of the five best large school districts in the nation.
- The Long Beach Water Department is leading the largest federally authorized water desalinating research and development project in the nation; the advanced technology employed in this project could make the City drought-proof by the end of the decade.

Long Beach is poised to move forward in spite of the obstacles and detours that the City encounters along the way. Even as the City faces daunting challenges, it is uniquely positioned to be an admired example of the successful integration of a diverse culture, a robust economy, and a rewarding and fulfilling quality of life.

### **Cash Management Policies and Practices**

To obtain flexibility in cash management, the City employs a pooled cash system (see Notes 1 and 4 to the Basic Financial Statements in the Financial Section). Under the City's pooling concept, all available cash is invested daily in various securities, while maintaining reasonable liquidity to meet maturing obligations and maximizing return through the use of competitive rate comparisons from various investment sources.

The City's average pooled investments for fiscal year 2002 averaged \$970,416,000 and earned an annual average return of 3.94%. The City's pooled investments averaged \$898,990,000 for fiscal year 2001 earned an annual average return of 5.51%.

The rate of return demonstrates that the City maintained a reasonable and safe return on its investments during fiscal year 2002, while employing prudent investment policies to safeguard the City's cash assets and maintaining adequate levels of liquidity. The Department of Financial Management presents cash and investment reports to the City Manager, Mayor and City Council each fiscal quarter. The City Auditor also performs a quarterly independent review of City cash and investments for adherence to the City Investment Policy. The City's general investment strategies are set forth in a formal

Statement of Investment Policy, which is reviewed and approved annually by the City Council.

## **Risk Management**

The City is self-insured for workers' compensation and tort liability. City management believes that sufficient funds have been accumulated in the City's Insurance Internal Service Fund to meet losses as they arise. In addition, various risk control techniques, including safety training for all employees and the inclusion of appropriate legal provisions in third party contracts and leases, are in place to minimize risk of loss. Additional information about the City's self-insurance programs is reported in Note 14 to the Basic Financial Statements.

## **Debt Administration**

During the 2002 fiscal year, the City and its agencies issued approximately \$520.1 million in debt as follows:

<b>Fund / Agency</b>	<b>Amount (millions)</b>	<b>Purpose</b>
General Fund	\$ 13.5	Tax Revenue Anticipation Notes
General Fund/Public Facilities	40.9	Public Safety Building Seismic Retrofit
Employee Benefits Fund/ Pension Refunding	88.0	Partially Refund 1995 Pension Obligation Bonds
Harbor Fund	300.0	Improvements to the Port of Long Beach
Redevelopment Agency Fund	77.7	Redevelopment Agency Projects
	<u>\$ 520.1</u>	

Tax Revenue Anticipation Notes were issued in October 2001 to meet cash flow needs of the City's General Fund. Funds from operations were accumulated prior to September 30, 2002 to pay off the notes.

More detailed information about the debt position of the City is reported in Notes 8 through 11 of the notes to the Basic Financial Statements located in the Financial Section of this report, as well as in Exhibits 7 through 14 of the Statistical Section of this report.

## **Pension and Other Post Employment Benefits**

The City provides full time employees retirement and disability benefits, including annual cost-of-living adjustments and death benefits through the California Public Employees' Retirement System (CalPERS), agent multiple-employer public employee defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. The contribution requirements to the plan are established and amended by CalPERS. The City's funding policy is to make contributions as determined by CalPERS. Based on the latest actuarial valuations by CalPERS, as of June 30, 2001, the City was not required to make any contributions in fiscal year 2002. The miscellaneous employee's plan was funded by 127.7% and the safety employee's plan by 123.9%, according to CalPERS.

The City provides Special Status Contractors and Seasonal and Temporary employees retirement and death and disability benefits through a Public Agency Retirement System Defined Benefit Single Employer Retirement Plan (PARS Plan). The PARS Plan is administered through a third party administrator. The City's funding policy is to make the contribution as determined by the PARS Plan's actuary. The PARS Plans were funded 1,127% for the Special Status Contractor and 135% for the Seasonal and Temporary employees.

The City also provides post retirement health care benefits under the provisions of the City's Personnel Ordinance where upon retirement, the City allows retirees, their spouses and eligible dependents to use the cash value at retirement of the employee's accumulated unused sick leave to pay for health, dental and long-term care insurance under the City's Retired Employees Health Care Program. As of September 30, 2002 there were 708 participants in the plan for an annual cost of \$3,461,000.

Additional information on the pension arrangements and post employment benefits can be found in Notes 12 and 13 in the financial statements.

### **Independent Audit**

Section 803 of the City Charter requires the City Auditor, at least once in each fiscal year, to audit the financial statements of the City. Immediately upon completion of such audit, the City Auditor shall make and file with the City Clerk a written report thereof. The City Auditor contracted with an independent certified public accounting firm to join with his staff in a joint audit of the City's Basic Financial Statements for the fiscal year ended September 30, 2002. The Independent Auditors' report has been included in this report.

### **Awards**

The California Society of Municipal Finance Officers (CSMFO) awards its Certificate of Award for Outstanding Financial Reporting to recognize those entities whose comprehensive annual financial reports are judged to conform substantially to the highest standards for preparation of state and local government financial reports. The Comprehensive Annual Financial Report (CAFR) of the City of Long Beach has been awarded this certificate by the CSMFO for the fiscal year ended September 30, 2001.

### **Acknowledgments**

We wish to acknowledge the excellent participation and professional contribution of Financial Management, and other City departments' staff and clerical support in the preparation of this document. The CAFR requires a considerable amount of effort and time, in addition to normal daily job duties. Their continued dedication is most appreciated.

Respectfully submitted,



GERALD R. MILLER  
Acting City Manager



ROBERT S. TORREZ  
CFO/Director of Financial Management

# *California Society of Municipal Finance Officers*

Certificate of Award

***Outstanding Financial Reporting 2000-2001***

Presented to the

***City of Long Beach***

*This certificate is issued in recognition of meeting professional standards and criteria in reporting  
which reflect a high level of quality in the annual financial statements  
and in the underlying accounting system from which the reports were prepared.*

*June 27, 2002*



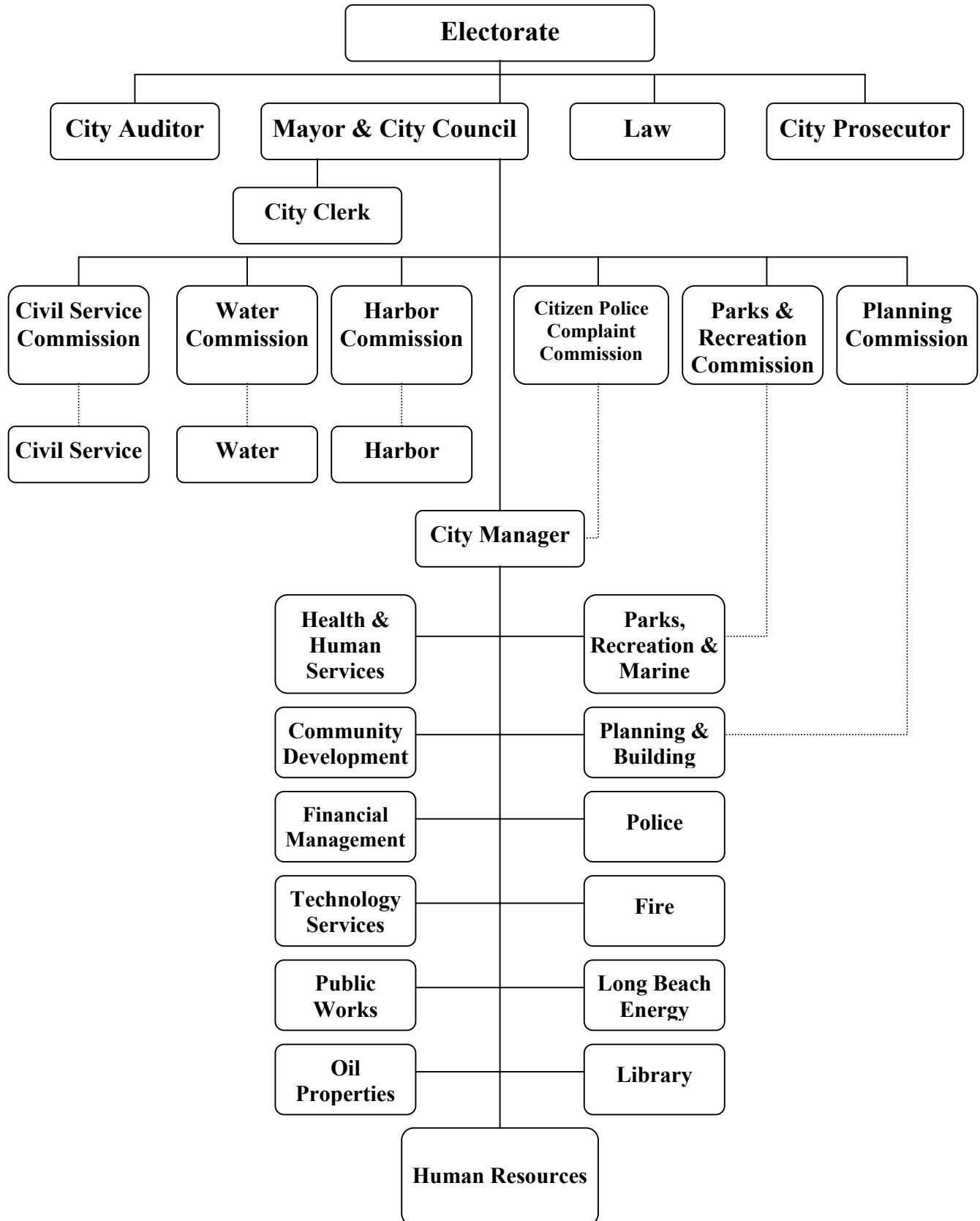
*Art M. Miller*  
Chair, Professional & Technical Standards Committee

***Dedicated to Excellence in Municipal Financial Management***

# LONG BEACH CITY GOVERNMENT

## ORGANIZATION CHART

As of September 30, 2002



Current  
Directory of City Officials \*

Beverly O'Neill  
Mayor

Frank Colonna  
Vice-Mayor  
3rd District

Bonnie Lowenthal  
Councilmember  
1st District

Dan Baker  
Councilmember  
2nd District

Dennis Carroll  
Councilmember  
4th District

Jackie Kell  
Councilwoman  
5th District

Laura Richardson  
Councilwoman  
6th District

Tonia Reyes Uranga  
Councilmember  
7th District

Robert Webb  
Councilmember  
8th District

Val Lerch  
Councilmember  
9th District

Elected Department Heads

City Attorney  
City Auditor  
City Prosecutor

Robert E. Shannon  
Gary L. Burroughs  
Thomas M. Reeves

Appointed by Council or Commission

City Clerk  
Executive Director - Civil Service  
Executive Director - Harbor  
General Manager - Water

Larry Herrera  
Mario R. Beas  
Richard D. Steinke  
Kevin L. Wattier

City Manager  
Gerald R. Miller (Acting)

Deputy City Managers  
Christine F. Shippey  
Reginald I. Harrison  
Suzanne R. Mason (Acting)

Director of Community Development  
CFO/Director of Financial Management  
Director of Health and Human Services  
Director of Human Resources and Affirmative Action  
Director of Library Services  
Director of Oil Properties  
Director of Parks, Recreation and Marine  
Director of Planning and Building  
Director of Public Works  
Director of Technology Services  
Director of Long Beach Energy  
Fire Chief  
Chief of Police

Melanie Fallon  
Robert S. Torrez  
Ronald Arias  
Kevin Boylan (Acting)  
Eleanore Schmidt  
Dennis M. Sullivan  
Phil T. Hester  
Eugene J. Zeller  
Christine F. Shippey (Acting)  
Curtis Tani (Acting)  
Christopher J. Garner  
Terry L. Harbour  
Anthony W. Batts

\* City Officials as of date of printing

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